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DEPARTMENT FOR EEB/S-EEE RICHARD MORNINGSTAR
DOE FOR OFFICE OF RUSSIAN AND EURASIAN AFFAIRS: LANA EKIMOFF

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TAGS: ENRG EPET PREL TU

SUBJECT: PM ERDOGAN AND MINISTER YILDIZ POSITIVE ON
NEGOTIATIONS WITH AZERIS AND IRAQ ENERGY

Classified By: DCM Doug Silliman for reasons 1.4 (b,d).

¶1. (C) SUMMARY: In separate meetings with Special Envoy for Eurasian Energy Morningstar on December 2, PM Erdogan and Energy Minister Yildiz both spoke positively of reaching agreement with the Azeris on Shah Deniz gas and cooperating more closely with the U.S. to develop Iraq's energy sector. Erdogan stressed the importance of pushing for agreement between Erbil and Baghdad on hydrocarbons. Yildiz was confident Iraqi gas supplies would be plentiful enough for export in three to five years. He said Turkish Petroleum Company (TPAO) will bid on 10 Iraqi oil fields (Note: they won only one bid) in the new bidding round, and will decide whether to expand activity in northern Iraq based on the results. End summary.

¶2. (C) On December 2, Special Envoy for Eurasian Energy Morningstar met with PM Erdogan, who was accompanied by Energy Minister Yildiz. The tone of the meeting was positive and friendly, and the PM began by noting he was greatly looking forward to meeting with President Obama December 7 and making his visit to the U.S. a success. He said the new Strategic Framework agreement to be announced in Washington was a critically important step in our bilateral relations.

Erdogan Positive toward Azeris, Presses on NK and US Attitude toward Russia

¶3. (C) Erdogan said he very much wants to conclude an agreement with the Azeris on Shah Deniz gas. He added, however, that Turkey wants to play a regional leadership role only if there is a worthwhile role to play. He said Turkey's primary focus is on the Middle East. He acknowledged the strategic importance of the Nabucco project for Turkey and for Europe. He said he and Azeri President Aliyev had agreed on "basic principles" for a deal with Azerbaijan.

¶4. (C) Erdogan raised the issue of Nagorno-Karabakh (NK) with Morningstar. He said the Minsk Group needed to work harder to find a solution. He had done what he could by signing the protocols to normalize relations with Armenia but it was politically impossible to go ahead without major breakthroughs on NK. Turning to another subject, Erdogan asked why the U.S. criticizes Turkey on its relations with Russia. He appeared pleasantly surprised when Morningstar responded that we are not critical and are trying to engage constructively with Russia. Erdogan suggested Russia could become a third-party supplier to Nabucco, and Morningstar indicated that we had not ruled out Russia as a potential shipper, not a shareholder, but that Russia had not indicated any interest in Nabucco thus far.

GoT Will Push for Baghdad-Erbil Hydrocarbon Agreement

¶ 15. (C) The parties discussed Iraq as an energy supplier for Europe and agreed that development of Iraq's energy sector is a good area for U.S.-Turkey cooperation. Erdogan said both the GoT and the USG must push for agreement between Erbil and Baghdad. He believes nothing will be done prior to the elections and that the KRG will be in a better position to negotiate with Baghdad after the election.

Yildiz Positive on Reaching Agreement with Azeris

¶ 16. (C) In a separate December 2 meeting with Special Envoy for Eurasian Energy Morningstar, Ambassador Jeffrey, and other State, Energy and embassy staff, Yildiz said he was hopeful of reaching a final agreement with the Azeris on Shah Deniz gas and would be happy to have signed an agreement in principle prior to the meeting of President Obama and Prime Minister Erdogan on December 7. To that end, Yildiz planned to call his Azeri counterpart and invite the negotiators to Ankara on December 5.

¶ 17. (C) Although Yildiz several times expressed confidence of reaching an agreement with the Azeris, he also discussed some of the challenges of the negotiations. He said each meeting in the process should build on previous discussions, but instead each has been like an independent meeting, with the parties losing ground and having to start over. To illustrate the Turks' flexibility and the Azeris' unwillingness to move forward, Yildiz offered "an anecdote." He said the difference between the two sides' proposals on transit fees was about USD 70 million. Realizing this is less than a tenth of a percent of the USD 80-90 billion total

value of the project, the Turks offered to compensate the difference by adding payments up to USD 85 million elsewhere in the deal, but the Azeris would not agree. In response, Morningstar observed that the obstacles may be more political than commercial.

¶ 18. (C) Note: According to Sefa Aytekin, head of the Ministry of Energy Foreign Relations Department, Yildiz personally participated in negotiations December 5-7, but no agreement was reached. Aytekin said the Azeris did not counter the technical points raised by the Turkish side and instead brought political issues to the agenda. End note.

Turkey Wants Iraqi Energy Resources, Preferably from Baghdad

¶ 19. (C) In regard to Iraqi gas, Yildiz said the GoI priorities he heard on the October 15 visit to Baghdad with PM Erdogan were, in order: Iraqi citizens, electricity generation, and export. He said given these priorities, significant exports are expected in three to five years, so there will be enough gas to count on supplies for Nabucco, as mentioned in the MOU signed on October 15.

¶ 10. (C) Yildiz stressed that the GoT realizes the importance of the hydrocarbons law, and he believes the Iraqis will be able to finalize the law within three to five months after the elections. While waiting for the law, Turkey is acting in a limited manner in the energy sector in northern Iraq. Yildiz said the Turkish Petroleum Company (TPAO) will bid on ten tenders in the round to be announced by the GoI in December. Depending on the results, they will decide how to proceed in northern Iraq. (Note: TPAO was successful in only one bid, for the Badra oil field near the Iranian border, according to TPAO General Manager Mehmet Uysal. End note.)

¶ 11. (C) When asked where the U.S. might best lend support, Yildiz said by continuing to push for passage of the hydrocarbons law, which the GoT will also do. Yildiz noted that TPAO would like to partner with U.S. companies on some of its upcoming bids. He finished by suggesting he and Morningstar meet on a regular basis every few months.

¶ 12. (U) SEEE Morningstar cleared this cable.

JEFFREY

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